

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 396-08
Bill No.: Truly Agreed to and Finally Passed SCS for HB 133
Subject: Economic Development; Brownfield Program; Demolition Tax Credit.
Type: Corrected
Date: June 6, 2001
Corrected by removing duplicate entry of loss to County Foreign Insurance Tax Fund.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|-------------------------------------|--|--|
| FUND AFFECTED | FY 2002 | FY 2003 | FY 2004 |
| General Revenue * | \$0 to (More than \$500,000) | (\$61,773 to More than \$661,773) | (\$50,687 to More than \$750,687) |
| Contiguous Property Redevelopment ** | \$0 | \$0 | \$0 |
| County Foreign Insurance Tax | \$0 | \$0 | \$0 |
| Total Estimated Net Effect on <u>All</u> State Funds * | \$0 to (More than \$500,000) | (\$61,773 to More than \$661,773) | (\$50,687 to More than \$750,687) |

*Costs could exceed \$3 million annually

**Transfers and expenditures could exceed \$3 million annually, netting to \$0

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2002 | FY 2003 | FY 2004 |
| None | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|-------------------------------------|---|---|
| FUND AFFECTED | FY 2002 | FY 2003 | FY 2004 |
| Local Government | \$0 to (More than \$250,000) | \$Unknown to (More than \$300,000) | \$Unknown to (More than \$350,000) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

SECTIONS 441.500 - 441.590: NEIGHBORHOOD ASSOCIATIONS:

State Courts Administrator officials stated that the proposal would not affect state courts.

Oversight notes that the proposal would give neighborhood associations and housing corporations a tool which only municipalities and counties have now. There would be no direct effect on local government revenues.

SECTIONS 447.700 and 447.708 :BROWNFIELD PROGRAM- DEMOLITION TAX CREDIT

Officials from the **Department of Economic Development (DED)** state this proposal adds property adjacent to contaminated property to be eligible in the brownfield remediation program. "Allowable costs" can include demolition and reconstruction on eligible property even if the demolition and reconstruction are to a building other than one being remediated. The proposal specifically adds backfill as an allowable cost. DED ("may") grant demolition tax credit in cases where demolition is part of an approved plan. (Program is discretionary).

The DED assumes this proposal could possibly increase Brownfield costs for demolition about \$500,000 for FY2002, \$600,000 for FY 2003, and \$700,000 for FY2004. DED assumes that proposal will not require additional resources at this time. Should volumes increase and credits be granted, the DED may request additional resources at a later date.

Oversight assumes the amount of the new tax credits that may be utilized in any year could exceed the estimates provided by DED, and have therefore ranged the impact of the legislation from \$0 (no new tax credits issued) to (More than \$500,000) in FY 2002, and so forth. Oversight assumes that since the remediation and demolition tax credits could be taken against taxes authorized in Section 148 RSMo, including insurance premium taxes, one-half of the tax credit could be realized by the County Foreign Insurance Tax Fund (and ultimately the School Districts) as well as General Revenue.

Officials from the **Department of Natural Resources (DNR)** state the proposed legislation would allow for demolition and remediation of buildings and areas not directly part of a **ASSUMPTION** (continued)

Brownfield, but adjacent to a Brownfield, to be included in the project. The proposed changes

apply to uncontaminated structures. DNR would not have to provide oversight of the demolition of the structure; however, DNR would do a preliminary review of the site to verify the site is not contaminated.

The department assumes there would not be a significant number of Brownfield sites expanding their projects to include adjacent properties. At this time, the department does not anticipate the need to request additional resources as a result of this proposal. **If the number of Brownfield sites expanding their projects exceeds our expectations, there may be a need to request additional resources.**

The proposed legislation would allow for demolition tax credits for up to one hundred percent of the costs of demolition that are not part of the voluntary remediation activities. The proposed legislation requires DNR to approve any tax credits authorized by this provision.

Before DNR approves the demolition tax credit, the participant will have to demonstrate that hazardous substances are not contained within or beneath the structure. This demonstration could be made in the documents DNR reviews during a preliminary review, if the documents are comprehensive enough. However, if the initially reviewed documents are not comprehensive and leave some doubt as to whether hazardous substances are within or beneath the structure, then DNR would ask that additional investigations be conducted.

DNR estimates 25 to 30 sites per year. DNR also estimates the review time to approve the tax credit, as illustrated above, is apt to vary depending on the adequacy of the data submitted. If only a preliminary review is necessary, the review time would be approximately 6 hours. If review beyond the preliminary review is needed, the review time could increase to approximately 16 hours. DNR does not anticipate being significantly impacted by these provisions; however, if the number of sites exceeds our expectations, we may need to request additional resources.

DNR has the authority to cost recover any cost associated with reviewing the demolition tax credit. The associated cost for a six hour review is approximately \$411 ($\text{ES III salary } \$3393 \times 12 \text{ months} / 2080 \text{ annual hours} = \$19.58 \times 3.5 \text{ multiplier} = \$68.53 \text{ hrly rate} \times 6 \text{ hours}$). The associated cost for a 16 hour review is approximately \$1,096 ($\text{ES III salary } \$3393 \times 12 \text{ months} / 2080 \text{ annual hours} = \$19.58 \times 3.5 \text{ multiplier} = \$68.53 \text{ hrly rate} \times 16 \text{ hours}$). The 3.5 multiplier is used to recover overhead costs such as clerical and administrative staff as well as the cost of fringe benefits and indirect charges applied to personal services. The amount of increased revenues depends on the number of demolition tax credits the department reviews and the amount of time to review each. Since the department does not know the number of applications that would be submitted or the amount of time it would take to review, the amount of increased

ASSUMPTION (continued)

revenues would be unknown. However the increased revenues are considered reimbursements and therefore they will not impact total state revenue.

Officials from the **Department of Revenue (DOR)** state this proposal increases the eligibility for brownfield remediation and increases the brownfield tax credit by authorizing demolition tax credits. DOR does not anticipate a significant increase in the number of new credits filed, therefore, will not request additional FTE at this time. Though requested, DOR did not provide an estimate of revenue impact.

SECTION 447.721 - ECONOMIC DEVELOPMENT

Officials from the **Department of Economic Development (DED)** states the proposal creates the "Contiguous Property Redevelopment Fund" and allows DED to make grants to St. Louis City, Kansas City, Jackson County, Greene County, and St. Louis County from appropriated funds. The funds are to be used to assist the body both acquiring multiple contiguous properties within such boundary and engaging in the initial redeveloping of such properties for future use as private enterprise.

The DED assumes an unknown amount will be appropriated to the fund. No cost is projected for the funds that would be appropriated to fund the program. DED assumes these funds will be appropriated in the FY 2003 budget. DED assumes the need for one Economic Development Incentive Specialist II (at \$37,488 per year) and associated expense/equipment to administer the grant program.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 12 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 18 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal would be \$738, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to similar legislation from last year, officials from the **St. Louis Development Corporation** stated this proposal would allow them to fund the creation of major development-ready sites for development. They stated this legislation would assist them in the process of acquiring, effecting locations, demolishing existing improvements, and providing new infrastructure. They recommended a multi-year commitment of at least \$3 million dollars per year for this purpose for the City of St. Louis..

Officials from the **Office of the State Treasurer** assume this proposal would not fiscally impact their agency.

Oversight assumes the annual amount appropriated from the General Revenue Fund to the Contiguous Property Redevelopment Fund, starting in FY 2003 would be an unknown amount. In a fiscal note for a previous version of the proposal, Oversight had estimated an appropriation of \$3 million, however, that proposal only included St. Louis City as the eligible recipient of the grants. This version expands the list of eligible recipients to also include Kansas City, Greene County, Jackson County and St. Louis County, therefore, Oversight assumes the appropriation may differ substantially from our original estimate.

Oversight also assumes the DED would grant/spend all monies appropriated to the new fund. In the fiscal note for the previous version of this proposal, Oversight assumed the DED would not require an additional FTE to administer this program, however, with the expanded possible recipients, Oversight assumes the DED would need an additional FTE if the amounts appropriated for this program were substantial enough to warrant. Oversight assumes DED would not need to pay for additional floor space for this additional FTE, and has also adjusted DED's estimate to reflect a starting salary for an Economic Development Incentive Specialist II.

| <u>FISCAL IMPACT - State Government</u> | FY 2002 (10 Mo.) | FY 2003 | FY 2004 |
|---|---------------------|-------------------|------------------|
| GENERAL REVENUE FUND | | | |
| <u>Costs</u> - DED | | | |
| Personal Service (1 FTE) | \$0 | (\$31,267) | (\$32,048) |
| Fringe Benefits | \$0 | (\$10,421) | (\$10,682) |
| Expense and Equipment | <u>\$0</u> | <u>(\$20,085)</u> | <u>(\$7,957)</u> |
| <u>Total Costs</u> - DED | \$0 | (\$61,773) | (\$50,687) |
| <u>Costs</u> - Appropriation to the contiguous property redevelopment fund * (Section 447.721) | <u>\$0</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |

| | | | |
|--|-----------------|----------------|----------------|
| <u>FISCAL IMPACT - State Government</u> | FY 2002 | FY 2003 | FY 2004 |
| | (10 Mo.) | | |

*** Subject to Appropriation**

| | | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| <u>Loss</u> - Demolition Tax Credits (Sections- 447.700 - 447.708) | \$0 to (More than \$500,000) | \$0 to (More than \$600,000) | \$0 to (More than \$700,000) |
|--|---------------------------------|---------------------------------|---------------------------------|

| | | | |
|--|--|---|---|
| ESTIMATED NET EFFECT TO GENERAL REVENUE FUND* | <u>\$0 to (More than \$500,000)</u> | <u>(\$61,773 to More than \$661,773)</u> | <u>(\$50,687 to More than \$750,687)</u> |
|--|--|---|---|

*Costs could exceed \$3 million annually

CONTIGUOUS PROPERTY REDEVELOPMENT FUND

| | | | |
|---|-----|---------|---------|
| <u>Revenue</u> - Appropriation from the general revenue fund | \$0 | Unknown | Unknown |
|---|-----|---------|---------|

| | | | |
|--|-----|-----------|-----------|
| <u>Costs</u> - Grants to the City of St. Louis, City of Kansas City, Jackson County, Greene County and St. Louis County (Section 447.721) | \$0 | (Unknown) | (Unknown) |
|--|-----|-----------|-----------|

| | | | |
|---|-------------------|-------------------|-------------------|
| ESTIMATED NET EFFECT ON THE CONTIGUOUS PROPERTY REDEVELOPMENT FUND * | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|---|-------------------|-------------------|-------------------|

***Subject to Appropriation**

**COUNTY FOREIGN INSURANCE
TAX FUND**

| | | | |
|---|---------------------------------|---------------------------------|---------------------------------|
| <u>Loss</u> - Demolition Tax Credits | \$0 to (More than \$250,000) | \$0 to (More than \$300,000) | \$0 to (More than \$350,000) |
|---|---------------------------------|---------------------------------|---------------------------------|

| | | | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| <u>Savings</u> - Decreased distributions to School Districts | \$0 to More than <u>\$250,000</u> | \$0 to More than <u>\$300,000</u> | \$0 to More than <u>\$350,000</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|

| | | | |
|--|-------------------|-------------------|-------------------|
| ESTIMATED NET EFFECT ON COUNTY FOREIGN INSURANCE TAX FUND (Sections 447.700- 447.708) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|--|-------------------|-------------------|-------------------|

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2002 (10 Mo.) | FY 2003 | FY 2004 |
| <u>FISCAL IMPACT - Local Government</u> | FY 2002 (10 Mo.) | FY 2003 | FY 2004 |

CERTAIN CITIES and COUNTIES

| | | | |
|--|-------------------|-----------------------|-----------------------|
| <u>Revenue</u> - Grants from state contiguous property redevelopment fund (Section- 447.721) | <u>\$0</u> | <u>Unknown</u> | <u>Unknown</u> |
|--|-------------------|-----------------------|-----------------------|

SCHOOL DISTRICTS

| | | | |
|---|--|--|--|
| <u>Loss</u> - Decreased distributions from County Foreign Insurance Tax Fund (Sections 447.700 - 447.708) | <u>\$0 to (More than \$250,000)</u> | <u>\$0 to (More than \$300,000)</u> | <u>\$0 to (More than \$350,000)</u> |
|---|--|--|--|

| | | | |
|--|--|--|--|
| ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS | <u>\$0 to (More than \$250,000)</u> | <u>Unknown to (More than \$300,000)</u> | <u>Unknown to (More than \$350,000)</u> |
|--|--|--|--|

FISCAL IMPACT - Small Business

Small businesses that qualify for these tax credits would be positively impacted.(Sections 447.700-447.708)

Small businesses which owned property subject to receiverships authorized by this proposal would be affected as a result of this proposal. (Sections 441.500 to 441.590)

DESCRIPTION

Sections 441.500- 441.590 of this bill allows local housing corporations or neighborhood associations to petition and apply for the appointment of a receiver to perform an abatement of a dwelling or building that constitutes a threat to the public health, safety, or welfare. Current law allows counties or municipalities in which the building or dwelling is located to do so. A requirement for the party to allege the nature of the threat in the petition is added.

The bill authorizes the court to appoint a local neighborhood association as a receiver, as long as no local housing corporation exists for that area. Current law permits a local housing

corporation, licensed attorney, real estate broker, or other qualified person to be appointed as a receiver. The bill gives the neighborhood association the right of first refusal to serve as receiver as long as no local housing corporation exists for that area and if all lienholders refuse to serve as receiver or there are no lienholders of record.

Sections 447.700 and 447.708 of this proposal allows the demolition and reconstruction of buildings or structures which are not the object of remediation to count as allowable costs under the brownfield remediation tax credit program if:

- (1) The buildings or structures are located on an abandoned or underutilized property which is approved for financial assistance through the program; and
- (2) The demolition is part of a redevelopment plan approved by the Director of the Department of Economic Development and by the local government with jurisdiction in the area in which the project is located.

The proposal also allows properties immediately adjacent to any abandoned or underutilized property to qualify as an "eligible project" under the brownfield remediation program if the abandoned or underutilized property meets program requirements.

DESCRIPTION

The Director of the Department of Economic Development, with approval from the Director of the Department of Natural Resources, is allowed to grant a demolition tax credit for up to 100% of the demolition cost if voluntary remediation is occurring and demolition occurs as a part of an approved redevelopment plan.

Section 447.721 of this substitute creates the Contiguous Property Redevelopment Fund within the Department of Economic Development. The fund will be used for grants to the City of St. Louis, St. Louis County, Greene County, Kansas City, and Jackson County for acquiring and redeveloping contiguous properties within the areas. The department may promulgate rules for the administration of the program, including the form used to apply for the grants. The department is to give preference to those projects proposing the assembly of a greater number of acres than other projects and those projects for which a private interest in the usage of the property exists, once redevelopment of the property is completed. The provisions of this Section expire on August 28, 2006.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Treasurer
Department of Revenue
Department of Economic Development
Department of Natural Resources
Office of the State Courts Administrator
Office of the Secretary of State
St. Louis Development Corporation

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director
June 6, 2001